THE COLLAPSE OF GERMAN CREDIT.

The present war has undoubtedly upset the calculations of most of the world's economic experts. It is, therefore, dangerous to be dogmatic in regard to the significance even of events that are taking place before our eyes. Still, there remain certain means of judgment on which reliance can fairly be placed. In the economic sphere, one of these is agreed to be the rate of exchange at which the currency of belligerent countries can be negotiated in neutral centres. One may thus employ this criterion to the financial position of Germany without risking any serious economic blunder.

The criterion of foreign exchange is the one best applied to the credit of a belligerent country because experience has shown that, internally, the difficulties of war finance can fairly easily be met. In this respect practically all the belligerent countries have had similar experiences. The outbreak of war in 1914 gave finance and industry a severe shock everywhere. But the industrial nature of modern war and the improvement in the machinery of modern finance have enabled that shock to be almost forgotten. All the belligerents have been forced to alter their economic life in the direction of concentrating industry upon the one work of producing munitions of war. This concentration having been successfully effected, unemployment has been avoided, and with an inflation of the currency varying in the different belligerent countries, internal solvency has been almost everywhere maintained. Thus it is only in neutral countries that a just estimate of the respective credits of the belligerents can be formed. And the best means of making this estimate is to be found in the quotations for belligerents' currency in neutral markets. The country in which the respective credit of, say, England and Germany can most fairly be estimated seems to be Holland, which is separated only by a land frontier from Germany, and by a short sea passage from England. One may then regard the course of exchange rates on Holland, of London and of Berlin, as showing the market value of British and German currency expressed in Dutch money.

While during the first fourteen months of the present war German currency had only depreciated in Holland by 14·7 per cent., between October 1st and December 31st, 1915, this depreciation had increased to 28·7 per cent. This relatively rapid depreciation in the value of the Reichsmark during the last quarter of 1915 is acknowledged by economists to indicate that the military activity of the Germans in that period was only made possible by a further decrease in productive activity in Germany which involved a virtual collapse of the remains of the German export trade. In August, 1915, Finance Minister Helferrich stated that the depreciation of the mark abroad was unimportant. But subsequent actions of the German Government have given that economist the lie. As from January 28th, 1916, free dealings in foreign exchange in Germany were forbidden, and such transactions can now only be arranged through the Reichsbank. Yet, despite the increasing thoroughness of this governmental control, the depreciation in the mark has gone on apace. Through April and May, 1916, the quotations of the mark in Amsterdam showed some recovery from the lowest level previously touched. But in June the decline began again, and continued steadily until November. At this point there was a period of relative steadiness. But in March, 1917, the mark resumed its downward course, and, as a result no doubt of the British victories in the West and the declaration of war against Germany by the United States, the depreciation in the value of the mark had by the middle of April, 1917, amounted to 37·6 per cent. This depreciation may be stated in another way, namely that a German buyer of Dutch goods who would have paid 100 marks for them before the war had (quite apart from any rise which may have taken place in prices generally,) to pay 160 marks for the same goods in April, 1917.

It may be said, however, that a certain amount of depreciation of a belligerent's currency in a neutral centre is inevitable, and that even British credit has not emerged from the ordeal unscathed. This seems true, but the chart overleaf shows that British money has depreciated to a very much smaller extent than that of Germany. It will further be observed that during the last year while British currency recovered by 2 per cent. in Amsterdam, German marks depreciated by a further 8 per cent.

The figures shown on the chart on the reverse page prove clearly enough the strain which will be put on German finance after the war if the country is to obtain the imports of raw materials from abroad which will be necessary to restore the activity of German industry. Yet the stock of gold in the Reichsbank (and gold is the only thing left to Germany that she *can* export) is even now barely sufficient for internal requirements. It amounted on 31st March, 1917, to £127,238,000. By taking into account a holding of £19,135,000 of Treasury notes, the Reichsbank (which is no longer obliged to pay its notes in gold) was just able to maintain the proportions of one to three laid down by law as against the amount of notes in circulation, which on that date amounted to £430,801,000. With the issue of only £10,000,000 more notes, this legal proportion would have been exceeded. But this the German Government dare not face, and much less dare it export any of the gold on which it bases its appeal as a borrower to the German investor.

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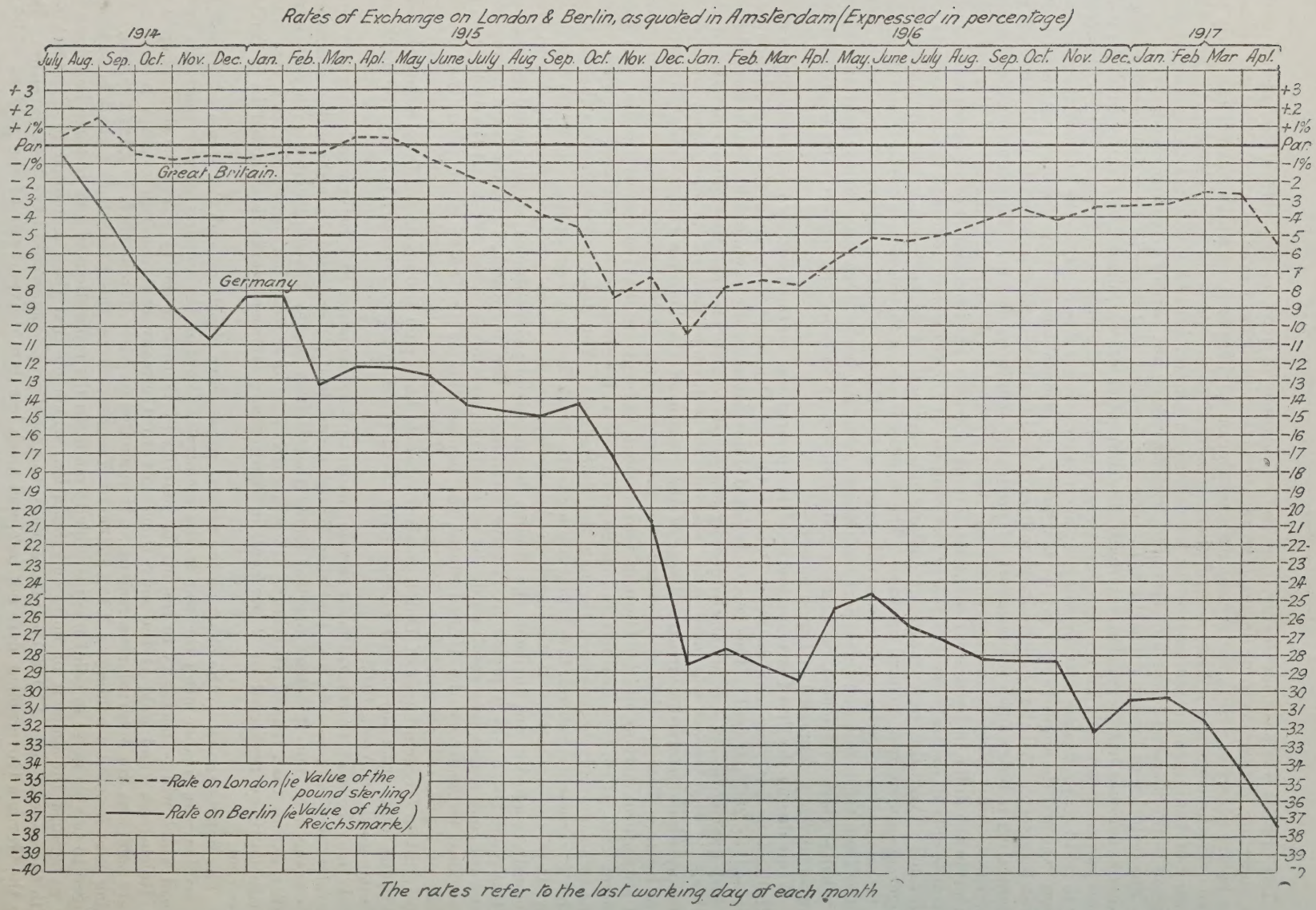

The April, 1917, figures refer to the 13th of the month, the last working day for which quotations are available.

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